

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC INVESTIGATION INTO	)	
WHOLESALE WATER RATES CHARGED BY	)	
THE CITY OF CARLISLE TO SHARPSBURG	)	CASE NO.
WATER DISTRICT AND NICHOLAS COUNTY	)	2021-00382
WATER DISTRICT PURSUANT TO KRS 278.200,	)	
KRS 278.160, KRS 278.180, KRS 278.190 AND	)	
807 KAR 5:011	)	

ORDER

On September 30, 2021, pursuant to 807 KAR 5:011, the city of Carlisle (Carlisle) filed a revised tariff proposing to increase its existing rate for wholesale water service effective October 30, 2021, to Sharpsburg Water District (Sharpsburg District) and Nicholas County Water District (Nicholas District).<sup>1</sup> On its own motion, the Commission opened a formal proceeding to investigate the reasonableness of the proposed rate. By Order dated October 20, 2021, pursuant to KRS 278.190(2), the Commission determined that further proceedings were necessary and suspended the rates for five months, from October 30, 2021, up to and including March 30, 2022. In the same proceeding, the Commission opened an investigation to review whether Carlisle charged its wholesale customers unauthorized rates in violation of KRS 278.160.

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<sup>1</sup> KRS 278.190(3) requires that the Commission render a final decision on Carlisle's proposed rate no later than ten months after the filing of the schedule. This ten-month period ends on March 31, 2022.

## LEGAL STANDARD

Pursuant to KRS 278.200, the Commission has jurisdiction over Carlisle's rates for wholesale water service to Sharpsburg District and Nicholas District. The Supreme Court's decision in *Simpson County Water District v. the City of Franklin*<sup>2</sup> specifically stated that "where contracts have been executed between a utility and a city, KRS 278.200 is applicable and requires that by so contracting the City relinquishes the exemption and is rendered subject to the Public Service Commission (PSC) rates and service regulation."<sup>3</sup> Following the Court's decision in *Simpson County*, the Commission has allowed city-owned utilities to file rate adjustments by a tariff filing, and if a hearing is necessary and the Commission suspends the proposed rate, the requirements and procedures set forth in KRS Chapter 278, and the Commission's regulations, apply equally to filings by a city-owned utility or a jurisdictional utility.<sup>4</sup> This case presents the issue of whether Carlisle's proposed rate increase is fair, just and reasonable based upon the evidentiary record.

Carlisle's wholesale water rate charged to Sharpsburg District and Nicholas District is subject to KRS 278.030, which provides that a utility may collect fair, just and reasonable rates. KRS 278.260 further provides that the Commission, on its own motion, may investigate whether "any regulation, measurement, practice or act affecting or relating to the service of the utility or any service in connection therewith is unreasonable." In addition to suspending the proposed tariff for investigation, the Commission opened an

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<sup>2</sup> *Simpson County Water District v. City of Franklin*, 872 S.W.2d 460, 463 (Ky. 1994).

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*; *City of Danville v. Public Service Comm'n, et al.*, Civil Action No. 15-CI-00989, *Opinion and Order* (Franklin Circuit Court Division II, June 14, 2016).

investigation to determine if Carlisle engaged in unreasonable conduct related to its wholesale contracts with Nicholas District and Sharpsburg District.

### DISCUSSION

Commission Staff issued three rounds of information requests to Carlisle. The first requests were entered October 25, 2021, and Carlisle filed responses on January 18, 2022, more than two months past the November 9, 2021 response due date. Commission Staff entered information requests on January 6, 2022, after a hearing was held in this matter, and partial responses were filed by Carlisle on January 24, 2022. After still not receiving full responses, Commission Staff entered the third round of information requests on January 31, 2022, with responses due on February 28, 2022.

An informal conference was held on March 16, 2022, so Commission Staff could assist Carlisle in identifying the necessary information for Commission Staff to review the proposed rates that Carlisle had failed to provide. Carlisle provided responses to the requests for information on March 16 and March 17, 2022. Commission Staff reviewed this information and compared its evaluation with that of the rates proposed by Carlisle and provided analysis to the Commission for consideration.

Upon review of the responses, the Commission was able to make several determinations. First, the total gallons of water sold to the wholesale customers for the Fiscal Year ended June 30, 2020, was 87,639,600,<sup>5</sup> which represents approximately

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<sup>5</sup> City of Carlisle's Response to Commission Staff's Second Post Hearing Request for Information (Staff's Second Post Hearing Request) (filed Mar. 16, 2022), Item 3. See also, City of Carlisle's Supplemental Response to Commission Staff's Second Post Hearing Request (filed Mar. 17, 2022), Item 3. Billing history the gallons stated in Response to Staff's First Request was 84,484,000 gallons sold to the wholesale customers.

66 percent of the total gallons sold to all customers.<sup>6</sup> Total wholesale revenue for the Fiscal Year 2020 was \$131,039.<sup>7</sup> Based on the Fiscal Year 2020 audit and adjusted for expenses related to water loss above 15 percent pursuant to Commission regulations,<sup>8</sup> the city of Carlisle’s water division requires an overall revenue increase of \$171,149, or 30.52 percent, as shown in the table below.<sup>9</sup>

Pro Forma Operating Expenses	\$ 663,699
Divide by: Operating Ratio	<u>88%</u>
Overall Revenue Requirement	754,204
Less: Other Operating Revenue	<u>(22,332)</u>
Revenue Required from Rates	731,872
Less: Pro Forma Present Rate Service Revenues	<u>(560,723)</u>
Total Required Revenue Increase	<u>\$ 171,149</u>
Total Percentage Increase	<u>30.52%</u>

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<sup>6</sup> *Id.* (FY 2020 gallons sold to Sharpsburg 22,492,900 + FY 2020 gallons sold to Nicholas District 65,146,700 + FY 2020 gallons sold to Other 45,661,500 = 133,301,100 gallons)

<sup>7</sup> City of Carlisle’s Response to Commission Staff’s Second Post Hearing Request, Item 1 and 2.

<sup>8</sup> 807 KAR 5:066 Section 6(3).

<sup>9</sup> The financial exhibits prepared using the Fiscal Year 2020 audit appear in Appendix A to this Order.

Based on the percentage of sales for each customer class, the required revenue increase to the wholesale customers is \$112,523,<sup>10</sup> or 85.87 percent.<sup>11</sup> Carlisle’s proposed rate increase to its wholesale customers would generate revenue of approximately \$42,206, or 33 percent,<sup>12</sup> which in the long term, is not adequate to meet the needs of the utility to maintain its facilities and remain in operation to provide services. Commission Staff developed a billing analysis to determine the normalized revenue for the wholesale operations of Carlisle, as Carlisle failed to provide a billing analysis, nor did they provide a billing analysis for the proposed rates to signify the revenue the proposed rates would generate. Commission Staff utilized the information provided in the rate schedules provided by Carlisle for the current rates and the proposed rates,<sup>13</sup> and in response to

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<sup>10</sup>

Percent of Sales Attributable to Wholesale	66%
Times: Required Revenue Increase	<u>\$ 171,149</u>
Required Revenue Increase Attributable to Wholesale	<u><u>\$ 112,523</u></u>

<sup>11</sup>

Wholesale Revenue to Nicholas District FY 2020	\$ 96,441
Wholesale Revenue to Sharpsburg FY 2020	<u>34,598</u>
Total Wholesale Revenue FY 2020	\$ 131,039
Divide by: Required Revenue Increase Attrib to Wholesale	<u>112,523</u>
Percent Required Wholesale Increase	<u><u>85.87%</u></u>

<sup>12</sup> Case No. 2021-00382, *Electronic Investigation into Wholesale Water Rates Charged by the City of Carlisle to Sharpsburg Water District and Nicholas County Water District Pursuant to KRS 278.200, KRS 278.160, KRS 278.180, KRS 278.190 and 807 KAR 5:011* (Ky. PSC Oct 20, 2021), Appendix E at 3, Customer Notice.

<sup>13</sup> *Id.*

Commission Staff's First Request to develop the billing analysis Commission Staff relied upon in its evaluations.<sup>14</sup>

The rate increase proposed is not enough based upon the information provided in the record. The proposed rates are not more than what is required by Carlisle nor unreasonably high, however the proposed rates are not adequate to support the utility over time. The parties should negotiate considering the rate sufficiency of the utilities going forward. The Commission notes that when a utility cannot produce the most basic business records required to assess its rate requirements, it is an indication of possible mismanagement and the parties should seek resources available to Kentucky's water utilities to assist in financial and operational management, including whatever assistance the Commission and its staff can provide.

#### FINDINGS

Upon review of the record and in consideration of the delay to this case caused by Carlisle's own delay to provide basic business information, the Commission finds good cause to issue an order on the wholesale rate increase at this time and hold this case open to address the investigation into Carlisle's alleged unauthorized charges to Sharpsburg and Nicholas District, including taking evidence at the hearing scheduled in this matter for April 14, 2022. Given the evidence that has been presented in the financial exhibits from the responses to Commission Staff's information requests, the Commission finds that the rates proposed by Carlisle are fair, just and reasonable and should be approved.

Therefore, the Commission HEREBY ORDERS that:

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<sup>14</sup> City of Carlisle's Response to Commission Staff's First Request, Item 10, (filed Nov. 9, 2021).

1. The rates in Appendix B and proposed by Carlisle should be approved for service rendered on and after the date of this Order.

2. Within 20 days of the date of entry of this Order, Carlisle shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting forth the rates approved herein and reflecting their effective date and that they were authorized by the Order.

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PUBLIC SERVICE COMMISSION

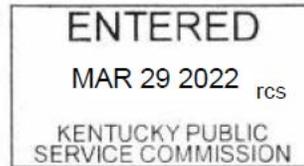


Chairman



Vice Chairman

\_\_\_\_\_  
Commissioner



ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00382 DATED MAR 29 2022

Statement of Adjusted Operations Fiscal Year 2020

	Test Year	Adjustment	Pro Forma
Operating Revenues			
Sales of Water	\$ 560,723		\$ 560,723
Other Water Revenues	22,332		22,332
	<u>583,055</u>	<u>-</u>	<u>583,055</u>
Total Operating Revenues			
Operating Expenses			
Operation and Maintenance Expenses			
Salaries and Wages - Employees	158,987		158,987
Salaries and Wages - Commissioners			-
Employee Pensions and Benefits	70,128		70,128
Purchased Water			-
Purchased Power for Pumping	64,661	(11,458)	53,203
Chemicals	102,278	(18,124)	84,154
Materials and Supplies	54,745		54,745
Contractual Services	22,974		22,974
Rent			-
Transportation Expense	12,853		12,853
Insurance	14,114		14,114
Regulatory Commission Expense			-
Bad Debt Expense			-
Miscellaneous Expense	6,861		6,861
	<u>507,601</u>	<u>(29,582)</u>	<u>478,019</u>
Taxes Other Than Income	12,703		12,703
Depreciation	172,977		172,977
	<u>693,281</u>	<u>(29,582)</u>	<u>663,699</u>
Total Operating Expenses			
Net Operating Income	(110,226)	29,582	(80,644)
Interest Income			-
Nonutility Income			-
	<u>(110,226)</u>	<u>29,582</u>	<u>(80,644)</u>
Income Available to Service Debt			

Water Loss Calculation

	Fiscal Year 2020 Expense	Percent Disallowed	Adjustment
Purchased Power	\$ 64,661	-17.72%	\$ (11,458)
Chemicals	102,278	-17.72%	(18,124)

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00382 DATED MAR 29 2022

Monthly Water Rates

First	1,000 Gallons	\$14.91	Minimum Bill
Next	4,000 Gallons	\$0.00508	Per Gallon
Next	5,000 Gallons	\$0.00392	Per Gallon
Next	5,000 Gallons	\$0.00273	Per Gallon
Next	10,000 Gallons	\$0.00253	Per Gallon
Next	25,000 Gallons	\$0.00210	Per Gallon
Over	50,000 Gallons	\$0.00202	Per Gallon

\*Mayor Ronnie Clark  
City of Carlisle  
107 East Chestnut Street  
Carlisle, KY 40311

\*Mary Ellen Wimberly  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801

\*City of Carlisle  
107 East Chestnut Street  
Carlisle, KY 40311

\*Nicholas County Water District  
1639 Old Paris Road  
Carlisle, KY 40311

\*Honorable Damon R Talley  
Attorney at Law  
STOLL KEENON OGDEN PLLC  
300 West Vine Street  
Suite 2100  
Lexington, KENTUCKY 40507-1801

\*Nicholas County Water District  
Nicholas County Water District  
1639 Old Paris Road  
Carlisle, KY 40311

\*Attorney Earl Rogers III  
Campbell Rogers & Hill, PLLC  
Campbell & Rogers  
154 Flemingsburg Road  
Morehead, KENTUCKY 40351

\*Ms. Gayle Haney  
Manager/Distribution Operator  
Sharpsburg Water District  
16 East Mill Street  
P. O. Box 248  
Sharpsburg, KY 40374

\*Sharpsburg Water District  
16 East Mill Street  
P. O. Box 248  
Sharpsburg, KY 40374

\*Honorable Henry Watson, III  
Attorney at Law  
525 High Street, Suite 328  
Paris, KENTUCKY 40361